MOQHAKA MUNICIPALITY

"People's power in action"

ANNEXURE

"A"

ANNUAL BUDGET DOCUMENT FOR 2020/21

MEETING TO BE HELD ON | **27 MAY 2020**

DRAFT ANNUAL BUDGET OF MOQHAKA LOCAL MUNICIPALITY

"People's power in action"

2020/21 TO 2022/23 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK 2020/21 TO 2022/23

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Annual Budget

(a) Executive Mayor's Speech

The Mayor's speech will accompany the final annual budget approval.

(b) Council Resolutions

The Council take note of the following resolutions for the annual budget of 2020/21 to 2022/23 financial period:

The Council of Moqhaka Local Municipality, acting in terms of *section 24* of the Local Government: Municipal Financial Management Act (Act 56 of 2003) tables the budget for the 2020/21 MTREF.

The annual budget of the municipality for the financial year 2020/21 and the multi-year and single-year capital appropriations as set out in the following tables:

i. Budget Summary as per Table A1,
ii. Budgeted Financial Performance as per Table A2,
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vii. Budgeted Cash Flows as per Table A7,
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ix. Asset Management as per Table A9,
x. Basic Service Delivery measurement reflected as per Table A10.

1. Executive Summary

1.1 Introduction

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically, equitably and efficiently to the community at large. The Municipal Budget and Reporting Regulations, as well as various circulars as issued by the National Treasury has been used as a guiding tool for the budget preparation by Local Government.

The National Treasury's MFMA Circulars No.98 and 99 were used to guide the compilation of the 2020/21 MTREF.

The compilation of the MTREF remains a significant challenge to balance the budget between the limited revenue resources available and the immense need to provide quality basic service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth and to ensure financial sustainability the tariffs must be cost reflective.

The municipality's financial health position continues to deteriorate and as such needs to be stabilised and to strive to continuously better its financial position, complimented by acceptable levels of service delivery at affordable tariffs. The retention/maintenance of sufficient cash-backed reserves is critical for the sustainability of the municipality. In the present current economic climate, municipalities cannot afford to provide municipal services without recovering the cost of providing these services.

The National budget is under severe financial strain, as only 48.2% of the nationally raised funds are allocated to national government, 43% to Provinces, while municipalities (local government) only gets **8.8%** of the national revenue share. The National budget resulted in a decline in the funds allocated to local government, which resulted in a decrease of 9.1% when compared to the 2019/20 financial year.

1.2 Economic Overview

The national economic outlook has weakened since the 2019 MTBPS, following lower-than-expected growth in the second half of the year. Real GDP is estimated to have grown by only 0.3 per cent in 2019, partly as a result of electricity supply failures. Weak growth translated into a record unemployment rate of **29.1 per cent** in the second half of the 2019.

The national economic growth projections have been revised down to 0.9 per cent in 2020, rising to just 1.6 per cent in 2022. Electricity shortages are expected to constrain the economy over the forecast period. Global growth is expected to rise moderately over the forecast period, but considerable downside risks remain. The outlook for South Africa's key trading partners has weakened in recent months.

The following macro-economic forecasts have been taken into consideration during the preparation of the 2020/21 MTREF.

Macroeconomic Performance and Projections

Percentage change	**2019**	**2020**	**2021**	**2022**
	Estimate	Forecast		
Real GDP growth	0.3	0.9	1.3	1.6
CPI Inflation	4.1	4.5	4.6	4.6

Source: NT 2020 Budget Review

The economic impact of **Covid-19** [The National Disaster] remains unknown, as most people has lost employment mainly due to a number of companies closing down as a result of lack of economic activities. The economic pressures are still unknown, despite the fact that it will be strongly felt by the local government (municipality) in terms of non-payment of municipal services which in turn threatens the financial sustainability of municipalities.

The lack of business confidence and private investment in the local government, has seen municipalities resorting to extreme measures to obtain funding which in turn increased the cost of raising debt due to the high risk of non-payment of financial obligation.

The latest S&P Global Rating of South Africa's long term foreign and local currency debt ratings further into non-investment grade to 'BB-' and 'BB' respectively. This adversely affect not only the Country's ability to raise debt, but also affects the municipality's ability to access finance. The rating adds with it more costs of doing business as a result of increased cost of debt (Interest).

The Economic Impact of Eskom supply disruptions
Eskom, which has a near monopoly on South Africa's electricity supply, is taking a large toll on the economy.

Industry estimated that power cuts caused losses of about 0.1 per cent of GDP in the fourth quarter of 2019. However, without intervention, the impact of supply disruptions on growth will be greater in 2020. Power cuts – even scheduled one - restrict production and investment, lower trade, increase the cost of doing business and put pressure on profits and employment. This in turn tends to reduce technology uptake and modernisation, particularly in small businesses. An uncertain and declining supply of electricity also contributes to low levels of confidence and investment, as well as lost capacity due to dame from power surges. The size of Eskom's balance sheet and its dominance in the energy sector affect the cost of borrowing for government, which in turn affects the cost of borrowing for the entire economy. Taken together, these factors structurally low South Africa's competitiveness, employment and exports.

**** Source: NT 2020 Budget Review*

In terms of guarding against these negative effects on the local economy, the municipality is on a drive to mobilise a private equity investor to partner with in the resuscitation of the municipality's Power Station into a cleaner energy source which will results in lower output costs for electricity consumed. This will aid in the reduction of the current Eskom debt and a relief from the high tariffs charged by Eskom which have become unaffordable to local government, as evidenced by the majority of municipalities which are indebted to Eskom.

The legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on the public recognising the value of, and paying for, municipal services. Over the medium term, equitable share allocations, which fund free basic services for low-income households, grow faster than inflation to account for household growth and higher costs of services. But, for most municipalities, own revenues are a larger proportion of their funding than transfers. **Their sustainability depends on how they collect and spend their own revenues.**

Problems in revenue management are the largest contributor to financial distress in local government. Households, followed by commercial customers and government, owe the largest share of outstanding municipal revenue. Weak revenue collection affects payments to suppliers and the sustainability of services, which ultimately cast a significant doubt on the municipality's ability to continue as a going concern.

1.3 Budget Overview

There are three budgets tabled for approval by Council, the operating expenditure budget, the operating revenue budget and the capital budget.

Table 1 Consolidated Overview of the MTREF

R thousand	Adjustment Budget 2019/20	Budget Year +1 2020/21	% Increase/ (decrease)	Budget Year +2 2021/22	% Increase/ (decrease)	Budget Year +3 2022/23	% Increase/ (decrease)
Total Operating Revenue	876 105	934 326	7%	979 174	5%	1 026 174	5%
Total Operating Expenditure	853 320	916 162	7%	960 138	5%	1 006 224	5%
(Surplus)/Deficit for the year	*22 785*	*18 164*	-20%	*19 036*	5%	*19 950*	5%
Total Capital Expenditure	*79 188*	*72 047*	*-9%*	*75 505*	*5%*	*79 130*	*5%*

The total operating revenue for the 2020/21 financial year has been forecasted at **R934** million. When compared to the 2019/20 Adjustment Budget, operational revenue has experienced a grown of 7**%.** For the two outer years, operational revenue is anticipated to increase by **4.8%** and **4.8%** respectively.

The total operating expenditure for the 2020/21 financial year has been forecasted at **R916** million. When compared to the 2019/20 Adjustments Budget, operational expenditure has been projected at **7%** in the 2020/21 budget year and by **4.8%** and **4.8%** for each of the respective outer years of the MTREF. The anticipated surpluses to be raised will be used to predominantly fund capital expenditure and to further ensure cash backing of funds and reserves.

The capital budget amounts to **R72** million for 2020/21, which is a R7 million (-9%) decrease from 2019/20 Adjustment Budget. This was mainly cause by the additional funds received for the Water Services Infrastructure Grant and the MIG Grant, and also a decrease with regards to the Own Funding Capital. The capital budget will mainly be funded from grants over the MTREF with gazetted grants of **R55** million as per the Division of Revenue bill 2020/21 and **R18** million from the municipal own funding.

2. The following budget principles and guidelines directly informed the compilation of the 2020/21 MTREF:

- The 2019/20 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustment Budget were adopted as the upper limits for the new baselines for the 2020/21 annual budget;
- The Zero based budgeting methodology was adopted in the compilation of the Capital Budget;
- The Tariffs and Property Rates increases should remain affordable and should generally not exceed inflation as measured by the CPI year on year, except where there are price increases in the inputs of services that are beyond the control of the municipality;

- **Tariffs need to remain or move towards being cost reflective, and should take into account the need to address the infrastructure backlogs and maintenance thereof;**
- The necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the Annual Division of Revenue Act.

3. Tariff Setting

There are several tools available and methodologies employed to determine the appropriate tariffs. The municipality may favour different approaches but the principles of tariff setting is consistently applied. The municipality considered the following practicalities when setting tariffs:

- The Costs of bulk purchases (Electricity & Water) and the fluctuation in the seasonal cost {time-of-use-tariffs} thereof;
- The Consumption patterns to enable better demand management and planning; and
- In the event that the municipality has been under recovering costs, embark on a process to correct the tariff structures over a reasonable time period so that cost reflective tariffs are phased in, in a manner that spreads the impact on consumers over a reasonable period of time.

The tariff setting process is reliant on sound baseline information such as the number of properties within the municipal area of jurisdiction, the values of these properties, the number of households identified as indigent/poor, the consumption patterns in respect of basic services and the growth patterns within the various geographic areas.

The inflation rate forecasts as per the MFMA Circular no. 98 issued by National Treasury has been used in compilation of the MTREF. The maximum of **6%** growth rate was pronounced on the Revenue tariffs increases. However, some tariffs are higher than the stipulated percentage as these are based on recovering the cost of delivering the respective services and ensuring that the municipality remains sustainable.

4. The Council of Moqhaka Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) tables the following tariffs as set out and included in the budget documentation, with effect from 01 July 2020: (Average Increases)

The proposed revisions to the tariffs have been formulated in accordance with the municipality's Tariff and Rates Policy and complies with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA). In terms of Section 75A of the Local Government Municipal Systems Act, any fees, charges or tariffs which a municipality may wish to levy and recover in respect of any function or service of the municipality, must be approved by a resolution passed by the municipal Council with a supporting vote of a majority of its members.

The average tariff increases for the MTREF is as follows:

Description	2018/19	2019/20	2020/21	2021/22	2022/23
Property Rates	6%	9%	**7.7%**	9%	9%
Electricity	6.84%	9.41%	**6.24%**	5.2%	8.9%
Water	10.5%	6%	**9.8%**	8%	8.5%
Sewerage	10%	6%	**8.5%**	7.5%	7%
Refuse	9%	6%	**8.1%**	7%	6.5%
Other Income	6%	9%	**11%**	9.5%	8%

** Electricity tariffs is as per the National Energy Regulator of South Africa (NERSA) approval.*
**** Detailed tariff list is attached as **Annexure F.***

The Council, in compliance with Section 14 of the Local Government: Municipal Property Rates Act, 2004 notes and tables to Council for approval the property rates increases as set out as per the tariff list attached as **Annexure F.**

5. The main challenges experienced during the compilation of the MTREF can be summarised as follows:

- The ongoing economic difficulties in relation to the national and local economic growth;
- The aging water, roads, sewer and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource basket given the cash flow realities and declining cash position of the municipality coupled with the ongoing increase of the municipality's debtors book;
- The increased cost of electricity (due to tariff increases as approved by NERSA);
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies to augment basic service delivery;
- The lack of affordable capital/borrowing;

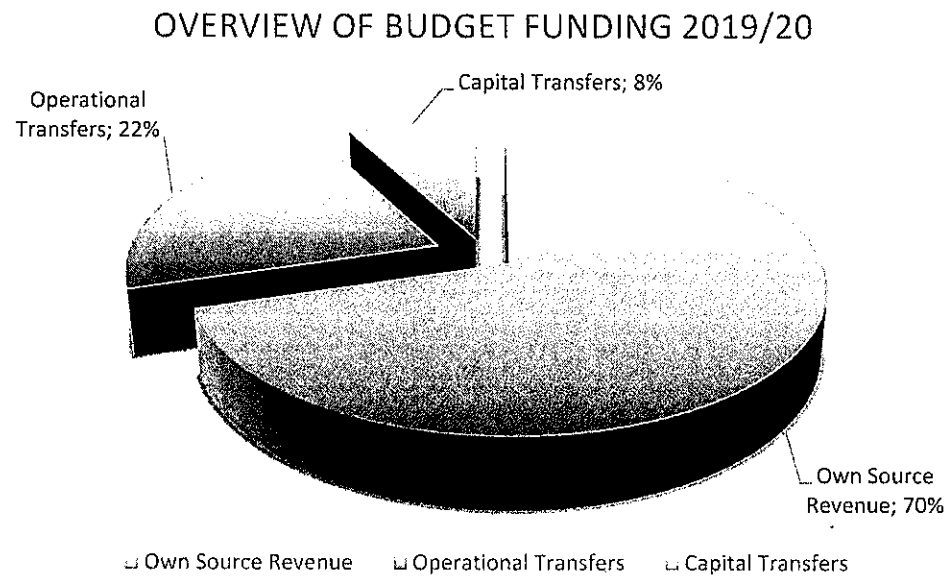
6. Overview of Budget Funding

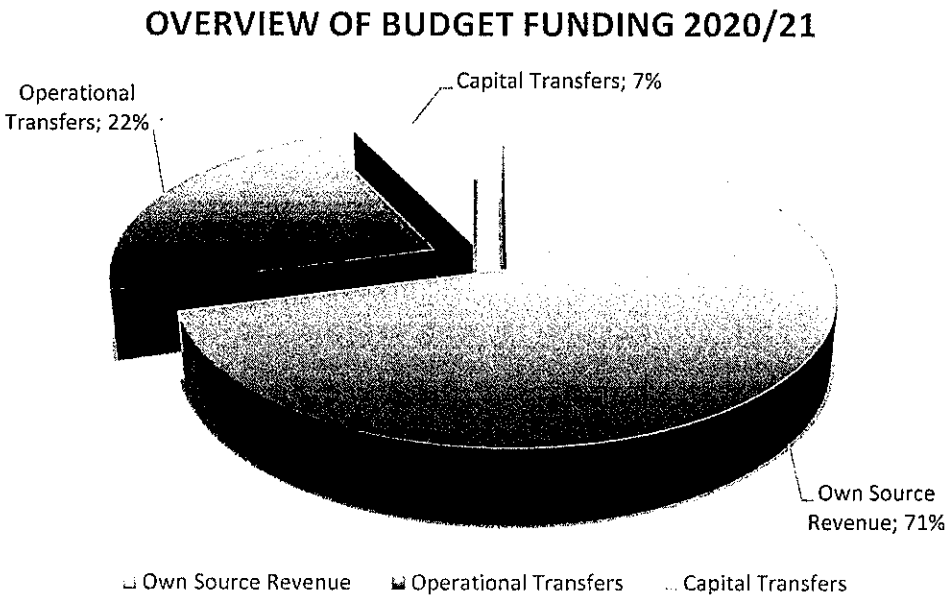
In line with Section 18 (1) of the MFMA which states that an annual budget may only be funded from:

- ✓ Realistically anticipated revenues to be collected;
- ✓ Cash backed accumulated funds from the previous years' surpluses not committed for other purposes; and
- ✓ Borrowed funds, but only for the capital budget referred to in Section 17.

The importance of tabling funded budgets is highlighted in MFMA Circular No. 74.

The achievement of this requirement in totality effectively means that the Council has "Balanced" its annual budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Table A7 Budgeted Cash Flows and Table A8 Cash backed reserves/accumulated surplus reconciliation.





The Municipality continues to experience an unfavourable financial profile and low liquidity levels, which is mainly attributable to:

- The high outstanding debtors book which continues to increase on an annual basis due to non-payment of services by consumers,
- The municipality operates within its annual budget, as approved by Council.
- The municipality maintains a minimal cash to fund operations in effecting service delivery.

In compliance with relevant statutory requirements, the Financial Plan (Medium Term Revenue and Expenditure Framework-MTREF) is reviewed and updated annually.

The Capital budget is mainly funded by the allocations (grants) received by the municipality from National and Provincial Government in the form of grants, as well as public contributions and donations, borrowings and internally generated funds.

The municipality raises revenue from a basket of differential tariff increases determined in the most acceptable and equitable funding regime taking into consideration the actual cost of delivering services, budget priorities and national legislation, regulations and policy guidelines. The municipal revenue comprises of operating revenue which includes property taxes, services charges and operating grants- and capital revenue which consists of capital grants, borrowings, cash reserves and operating surplus.

This high level of independent and relative stable income sources of revenue is one of the key factors that support the sound financial position of the municipality. In addition to the obvious need to grow the municipality's revenue by increasing its tax base, other means for securing funding for Council projects need to be explored in a variety of ways. The municipality faces unpleasant choices in attempting to finance the projected levels of investment in infrastructure. Sources of capital finance are already stretched with limited scope for further borrowing, consumer pressure to restrict tariff and tax increases, and little likelihood of a structural upward adjustment in grant allocations. Further, efficiencies in the borrowing programme will continue to be sought to lock in lower cost and longer term borrowing, plus the introduction of new revenue sources such as infrastructure contribution and charges.

7. Operating Revenue Framework

The municipality generates income from various sources such as exchange and non-exchange transactions. Revenue from exchange transactions is generated mainly from trading services. The municipality has adopted a consolidated billing system for both exchange and non-exchange transactions for municipal services. Billing is therefore done systematically based on fixed monthly tariffs for other services as well as consumption based billing for metered services.

For Moqhaka Local Municipality to continue improving the quality of basic services provided to its citizens it needs to generate the required level of revenue and improve its debt collection rate. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and high poverty and unemployment rate in our area.

The expenditure required to address these challenges will inevitably always exceed available funding, taking into account the subsidies that the municipality needs to provide to the poor, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

7.1 The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Projected growth and growth in demand for services;
- Realistic projections of revenue and collection thereof, as well as strategies for debtor's management;
- Improving the effectiveness of revenue management processes and procedures;
- Efficient revenue management, which aims to ensure a **95%** annual collection rate for property rates and service charges as required by MFMA Circular No. 71;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No.82;
- Determination of tariffs for trading services in a cost reflective and a cost recovery manner;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service in order to achieve cost reflective tariffs (or Break-Even-Point);
- The municipality's Property Rates Policy approved by Council in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and the rendering of free basic services; and
- Curbing consumption of water and electricity by indigents to ensure that they do not exceed their allocated benefits.

The financial sustainability of the 2020/21 MTREF is largely dependent on the collection of the anticipated revenue. Provision is made in the budget for a **collection rate of 85%.** To achieve this collection, Moqhaka Local Municipality is looking to implement more robust credit and debt control measures, which will ensure that all consumers who can afford to pay for services rendered do pay for those services and those who cannot afford to pay for the services are registered accordingly as indigents in terms of the municipality's indigent policy. This rate is in relation to the 2020/21 financial year revenue collection, and does not take into account the collection efforts of the municipality with regards to its arrear consumer debt.

In terms of Council's social commitment to assist the poor households within Moqhaka the supply of free basic services and social contributions to identified structures in Moqhaka remains a priority in order to ensure basic service delivery.

In view of the aforementioned, the following table provides a consolidated overview of the proposed Medium-term Revenue and Expenditure Framework:

The following graph outlined the overall performance of the various budget votes;

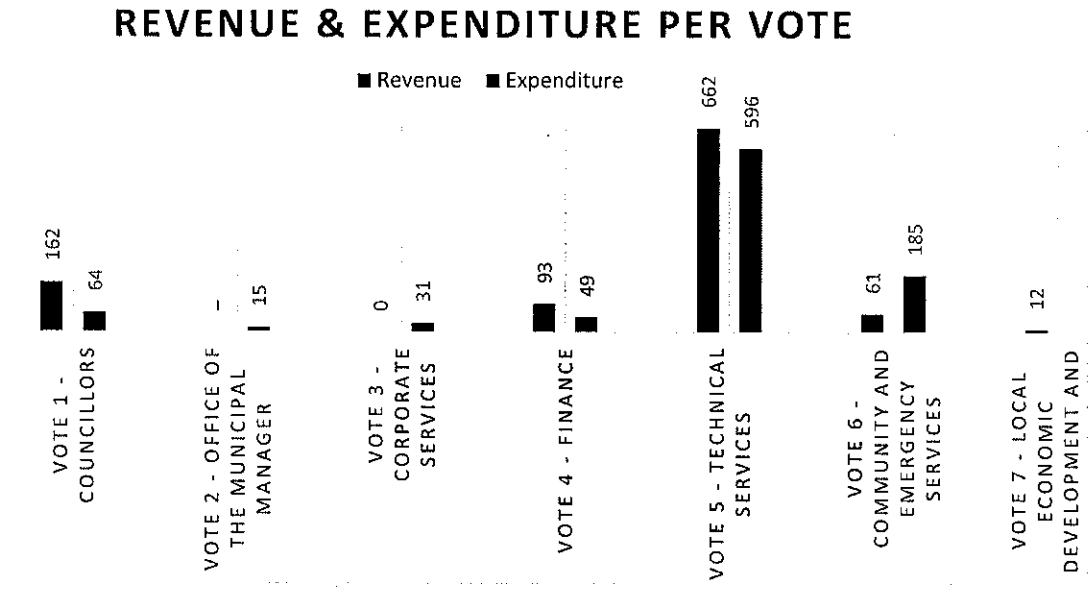
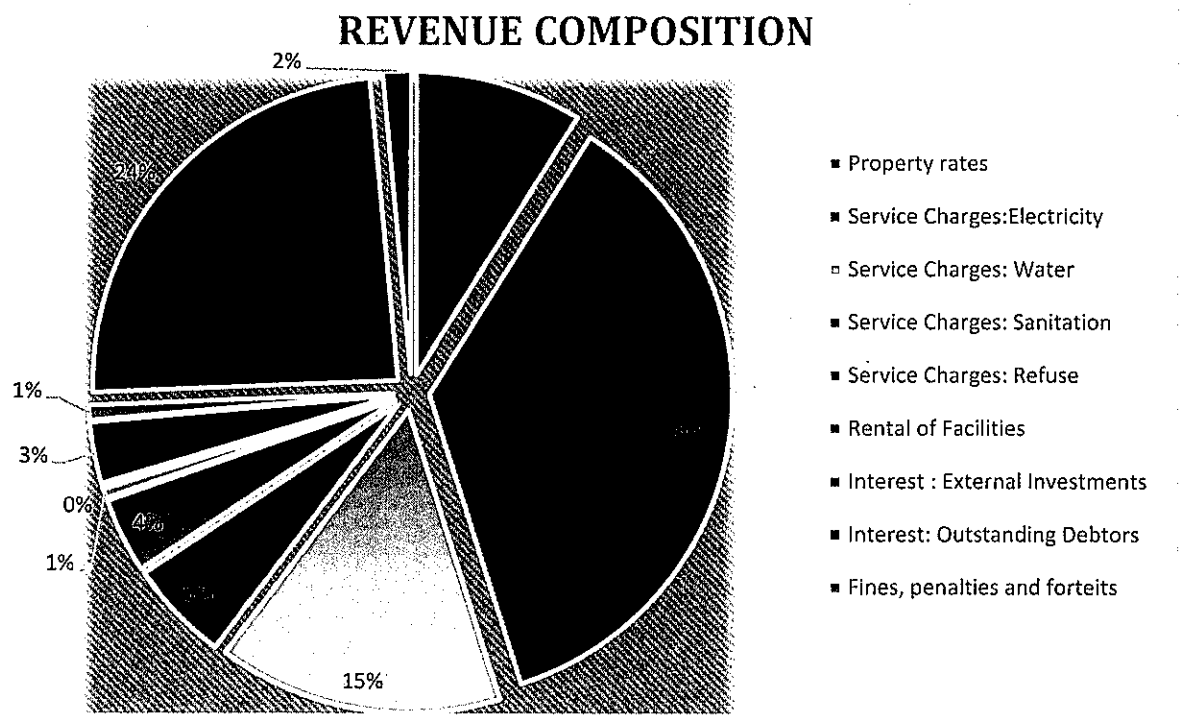


Table 2 Summary of revenue classified by municipal votes (A3)

Vote Description		2020/21 MTREF		
R thousand	Adjustment Budget 2019/20	Budget year 2020/21	Budget year 2021/22	Budget Year 2022/23
Revenue by Vote				
Vote 1 - Councillors	149 644	161 591	169 347	177 476
Vote 2 - Office of the municipal manager	-	-	-	-
Vote 3 - Corporate Services	863	308	323	339
Vote 4 - Finance	87 272	93 091	97 560	102 243
Vote 5 - Technical Services	624 324	662 138	693 920	727 228
Vote 6 - Community and Emergency Services	54 582	60 543	63 450	66 495
Vote 7 - Local Economic Development and Planning	14 604	11 833	12 401	12 996
Total Revenue by Vote	**931 289**	**989 504**	**1 037 001**	**1 086 777**

The following table is a summary of the MTREF classified by main revenue source

Table 3 Summary of revenue classified by main revenue source (A4)



Revenue types				
R thousand	Adjustment Budget Year 2019/20	Budget Year 2020/21	%	Revenue Composition
Property rates	76 515	82 876	8%	9%
Service Charges:Electricity	316 640	338 478	7%	36%
Service Charges: Water	131 187	141 502	8%	15%
Service Charges: Sanitation	46 925	50 209	7%	5%
Service Charges: Refuse	34 610	37 379	8%	4%
Rental of Facilities	8 003	4 769	-40%	1%
Interest : External Investments	1 795	1 883	5%	0%
Interest: Outstanding Debtors	28 573	30 285	6%	3%
Fines, penalties and forteits	8 023	7 426	-7%	1%
Transfers Recognised Operational	209 441	225 482	8%	24%
Other Revenue	14 393	14 037	-2%	2%
Total Revenue (Excluding capital grants)	**876 105**	**934 326**	**7%**	**100%**

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculated operating surplus/deficit.

Revenue generated from **rates and service charges** comprise a significant percentage (70%) of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2020/21 financial year, revenue from rates and services charges amounted to **R650** million. This effectively means that the municipality is highly dependent on its consumers/households/community to pay for the services rendered in order to enable the municipality to continue rendering these basic services consistently so. The municipal funding composition is outlined in section 6 of this document.

TARIFFS INCREASE REMARKS

Water

Revenues from water services increased on average by **9.8%.** The municipality continue to experience major challenges with regards to its water network, which in most cases leaves the community without water for extended period of times. The water network is still predominantly asbestos pipelines. This continues to adversely affect our water distribution infrastructure due to continuous burst pipes, especially during the winter season due to the type of network in place (asbestos pipes).

The repairs and maintenance cost for the network is funding from the "basic water charge" tariff. It has been evident from the past 3 years that this tariff does not adequately cover the costs of effectively maintaining the water network. This tariff continues to experience a higher tariff increase to ensure that adequate financial resources is available for the rehabilitation of the water infrastructure network.

The developments which the municipality undertook in the last 3 years has seen quite a high demand in terms of the water supply. Which conversely, puts pressure on the municipality to ensure that water is supplied accordingly to all residents within its Jurisdiction. The lack of adequate number of reservoirs still remain a huge challenge for the municipality in ensuring that its residents have water at all times.

Sanitation

Revenues from sanitation services increased on average by **8.5%**. The municipality continue to experience serious challenges with regards to its sanitation network. The network is a clay pipe network and is aged, while at the same time the municipality is experiencing continuous collapse lines which is very costly to the municipality to upkeep and maintain. These clay pipes most of the time results in sewer blockages due to the aging thereof, which also exacerbate the repairs and maintenance costs relating to the sanitation infrastructure network.

The repairs and maintenance cost for the network are mainly funded from the "basic sanitation charge" tariff. It has been evident from the past 3 years that this tariff is not adequate to cover the costs of effectively maintaining the sanitation network. This tariff will experience a higher tariff increase to ensure that adequate funding is available for the rehabilitation of the sanitation infrastructure network.

REFUSE

Revenues from Solid Waste Management increased on average by **8.1%**. The increased tariff is based on the costs of delivering the respective service. This is a progressive increase in ensuring that the tariffs are cost reflective, and that the division results in financial sustainability.

It was also determined by the municipality that one of the contributors to the Solid Waste expenditure relates to the excessive time spent (which leads to overtime been worked in most cases) collecting refuse that is kept in containers which does not comply with the required specifications as outlined in the Provincial Gazette of 13 March 2015,
which defines a "bin" as follows;
"bin - means a standard type of refuse bin with a capacity of 0.1 cubic meters or 85 litres as approved by the Municipality and which can be supplied by the Municipality. The bin may be constructed of galvanised iron, rubber or polythene;

bin liner-means a plastic bag approved by the Municipality which is placed inside a bin with a maximum capacity of 0.1 cubic meters. These bags must be of a dark colour, 950 mm x 750 mm in size, of low density minimum 40 micrometer diameter or 20 micrometer diameter high density;"

It is against this background that the municipality cannot continue to collect refuse that is not kept in acceptable containers as indicated above. *(it should also be noted that any refuse placed in mealie bags, the bags will not be returned only the refuse bins will be returned).*

OTHER REVENUE

Other revenue component increased on average by **11%**. This was as a result of the alignment of the costs involved in rendering these services, so as to ensure that the municipality does not run these services at a loss which will ultimately affect the municipality's going concern.

Other revenue comprises of various items such as income received from building plan fees, connection fees, rental of properties and advertisement fees. The departments are continuously reviewing the tariffs relating to these services on an annual basis to ensure they are cost reflective, market related and financially sustainable. This will also enable the municipality to have sufficient resources to effect the necessary repairs and maintenance to keep the properties on a good condition.

8. OPERATIONAL TRANSFERS

The Operating grants and transfers amounted to **R208** million in the 2019/20 financial year and the grants increased to **R225** million for the 2020/21 financial year. This is mainly because of the increase in the municipal equitable share allocation for the new financial year.

Table 4 Operating Transfers and Grant Receipts (SA18)

FS201 Moqhaka - Supporting Table SA18 Transfers and grant receipts

DESCRIPTION	REF	Budget Year 2019/20	Budget Year +2020/21	Budget Year +2021/22	Budget Year +2022/23
R thousands		Adjusted Budget			
RECEIPTS:	1, 2				
Operating Transfers and Grants					
National Government:		**208 441**	**224 482**	**235 257**	**246 550**
Local Government Equitable Share		205 660	222 134	232 796	243 971
LG Seta		566	–	–	–
Finance Management Grant		2 215	2 348	2 461	2 579
EPWP Incentive		**1 000**	**1 000**	**1 000**	1 000
EPWP Incentive		1 000	1 000	1 000	1 000
District Municipality:		–	–		–
Other grant providers:		–	–		–
Total Operating Transfers and Grants	5	**209 441**	**225 482**	**236 257**	**247 550**
Capital Transfers and Grants					
National Government:		**55 178**	**55 178**	**57 827**	**60 603**
Municipal Infrastructure Grant (MIG)		40 178	40 178	42 107	44 128
Water Services Infrastructure Grant		15 000	15 000	15 720	16 475
EPWP		–	–	–	–
DOE		–	–	–	–
EPWP Incentive		–	–	–	–
District Municipality:		–	–	–	–
[insert description]					
Other grant providers:		–	–	–	–
[insert description]					
Total Capital Transfers and Grants	5	**55 178**	**55 178**	**57 827**	**60 603**
TOTAL RECEIPTS OF TRANSFERS & GRANTS		**264 619**	**280 660**	**294 084**	**308 153**

9. Operating Expenditure Framework

The Municipality's expenditure framework for the 2020/21 budget and MTREF is informed by the following:

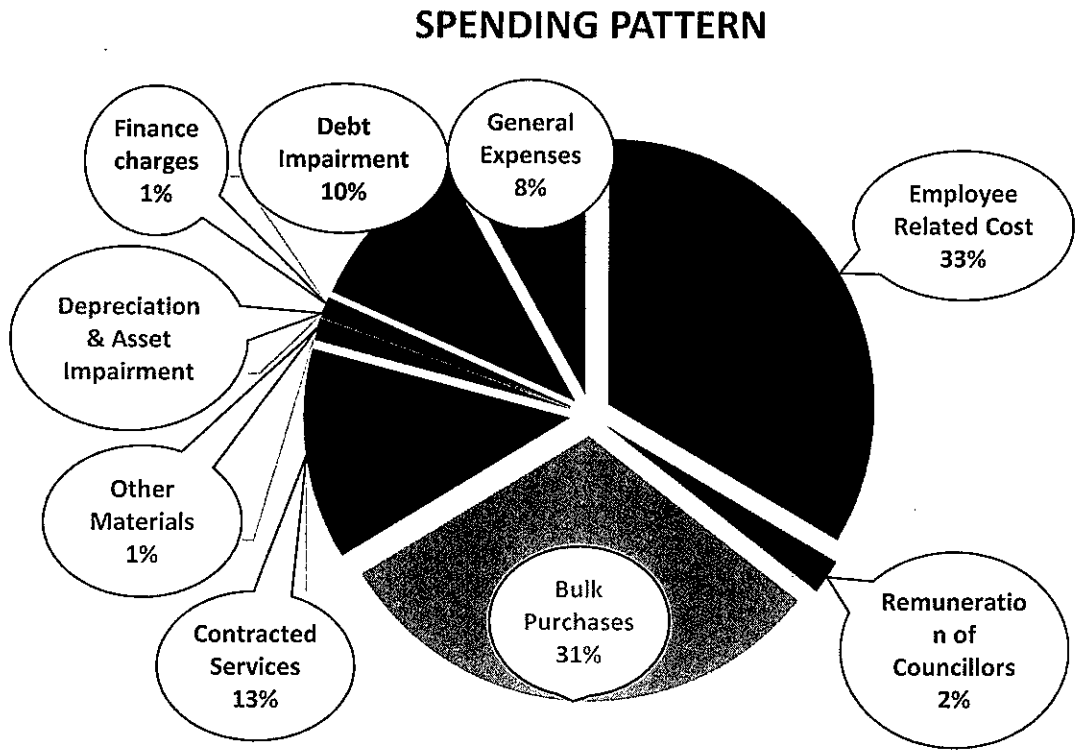
- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Table 5 Summary of operating expenditure by municipal votes (A3)

Vote Description		2020/21 MTREF		
R thousand	Adjustment Budget 2019/20	Budget year 2020/21	Budget year 2021/22	Budget Year 2022/23
Expenditure by Vote *to be appropriated*				
Vote 1 - Councillors	62 028	64 191	67 272	70 501
Vote 2 - Office of the municipal manager	14 010	14 696	15 401	16 140
Vote 3 - Corporate Services	30 314	30 862	32 343	33 896
Vote 4 - Finance	44 088	49 024	51 377	53 843
Vote 5 - Technical Services	504 133	540 872	566 834	594 042
Vote 6 - Community and Emergency Services	175 477	184 889	193 763	203 064
Vote 7 - Local Economic Development and Planning	23 271	31 629	33 147	34 738
Total Expenditure by Vote	**853 320**	**916 162**	**960 138**	**1 006 224**

10. The following table is a high level summary of the 2019/20 budget and MTREF (classified per main type of operating expenditure):

Table 6: Summary of operating expenditure by standard classification (A4)



OPERATING EXPENSES				
Description R thousand	**Adjustment Budget Year 2019/20**	**Budget Year 2020/21**	**%**	**Expenditure Composition**
Employee Related Cost	292 902	306 660	**5%**	**33%**
Remuneration of Councillors	18 595	19 373	**4%**	**2%**
Bulk Purchases	263 137	281 232	**7%**	**31%**
Contracted Services	100 890	117 844	**17%**	**13%**
Other Materials	10 349	12 211	**18%**	**1%**
Depreciation & Asset Impairment	4 137	4 470	**8%**	**0%**
Finance charges	7 397	6 725	**-9%**	**1%**
Debt Impairment	89 630	93 663	**4%**	**10%**
General Expenses	66 283	73 984	**12%**	**8%**
Total Expenditure (Excluding capital grants)	**853 320**	**916 162**	**7%**	**100%**

REMARKS

The budgeted allocation for employee related costs for the 2020/21 financial year amounts to R307 million, which equates to 33% of the total operating expenditure. The employee increase percentage is within the threshold as stipulated in the MFMA Circular No. 71.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the respective budget.

The cost associated with the remuneration of the municipality's senior managers is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Local Government: Upper Limits of Total Remuneration Packages payable to Municipal Managers and Managers directly accountable to Municipal Manager. The most recent proclamation in this regard has been taken into account in compiling the respective budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases as approved by NERSA (National Energy Regulator of South Africa) have been factored at 6.9% into the budget appropriation and directly inform the revenue provisions. The expenditure also incorporates the reticulation losses.

The Contracted Services encompasses overall the repairs and maintenance of amongst others; buildings, vehicles, equipment, gardens and traffic and street lights, gardening services, vending costs and security costs.

The Other materials mainly relates to stores consumables which is used in the rendering of services to the community at large. This includes; chemicals water and electricity meters, office materials, oil and electricity materials.

Provision for depreciation and asset impairment is been faced in over the financial years due to its excessive impact on the revenue tariffs, to provide for the asset renewal as a result of use over the years in line with GRAP 17.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

The provision of debt impairment was determined based on an annual collection rate of 85%. While this expenditure is considered to be a non-cash flow item, it informs the total costs associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. The debt impairment provision was also increased taking into account the current outstanding municipal debt.

11. Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by Council vote.

Table 7 Budgeted Capital Expenditure by Vote, Standard Classification and funding

FS201 Moqhaka - Table B5 Adjustments Cpaital Expenditure Budget by vote and funding -

Vote Description	2020/21 MTREF			
R thousand	Adjustment Budget 2019/20	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Capital expenditure - Vote				
Multi-year expenditure to be appropriated				
Vote 1 - Councillors	610	650	681	714
Vote 2 - Office of the municipal manager	–	–	–	–
Vote 3 - Corporate Services	11	50	52	55
Vote 4 - Finance	5	10	10	11
Vote 5 - Technical Services	53 014	55 178	57 827	60 602
Vote 6 - Community and Emergency Services	2 483	300	314	329
Vote 7 -LED	200	359	376	394
Capital multi-year expenditure sub-total	**56 323**	**56 547**	**59 261**	**62 106**
Single-year expenditure to be appropriated				
Vote 1 - Councillors	623	35	37	38
Vote 2 - Office of the municipal manager	–	–	–	–
Vote 3 - Corporate Services	1 507	2 286	2 396	2 511
Vote 4 - Finance	662	624	654	685
Vote 5 - Technical Services	6 884	1 418	1 486	1 557
Vote 6 - Community and Emergency Services	7 582	10 292	10 786	11 304
Vote 7 -LED	913	845	886	928
Capital single-year expenditure sub-total	**18 170**	**15 500**	**16 244**	**17 024**
Total Capital Expenditure - Vote	**74 494**	**72 047**	**75 505**	**79 130**

FS201 Moqhaka - Table B5 Adjustments Cpaital Expenditure Budget by vote and funding -

Vote Description	2020/21 MTREF			
R thousand	Adjustment Budget 2019/20	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Capital Expenditure - Functional				
Governance and administration	4 439	5 378	5 637	5 907
Executive and council	1 233	685	718	752
Budget and treasury office	3 206	4 693	4 919	5 155
Internal Audit	–	–	–	–
Community and public safety	8 322	7 525	7 886	8 265
Community and social services	5 500	6 500	6 812	7 139
Sport and recreation	813	780	817	857
Public safety	2 009	245	257	269
Housing	–	–	–	–
Health	–	–	–	–
Economic and environmental services	29 023	41 312	43 295	45 373
Planning and development	58	334	350	367
Road transport	28 672	40 678	42 631	44 677
Environmental protection	293	300	314	329
Trading services	32 710	17 832	18 688	19 585
Energy sources	–	–	–	–
Water Management	25 464	15 918	16 682	17 483
Waste water management	3 753	–	–	–
Waste management	3 493	1 914	2 006	2 102
Other				–
Total Capital Expenditure - Standard	74 494	72 047	75 506	79 130
Funded by:				
National Government	53 169	55 178	57 827	60 602
Provincial Government	–	–	–	–
District Municipality	–	–	–	–
Internally generated funds	21 325	16 869	17 679	18 527
Total Capital Funding	74 494	72 047	75 505	79 130

Table 8 CAPITAL GRANT FUNDING

PROJECT DESCRIPTION	WARD	FUNDING	GRANT	OWN FUNDING
Rammulotsi: Development and fencing of new landfill site - phase 2 (MIS:215370)	21	R 14 684 915	✔	
Maokeng (Koekoe Village): Upgrading of 0.93km Storm Water System and Channeling of Vlei Areas – Phase 2	13	R 6 352 779	✔	
Brentpark/Seeisoville: Construction of sewer reticulation network for 200 erven - Phase 1	13 & 15	R 2 205 354	✔	
Maokeng: Construction of 0.8km paved road from 16084 – 15680 with V-drain storm water in Koekoe Village (MIS:338384)	4	R 2 734 758	✔	
Maokeng: Construction of 0.55km paved road from 10673 – 10857 with V-drain storm water in Koekoe Village (MIS:338427)	6	R 1 292 600	✔	
Rammulotsi: Construction of 0.61km paved road from 2325 – 2330 with V-drain storm water (MIS:338432)	18	R 3 698 631	✔	
Rammulotsi: Construction of 0.55km paved road from 7058 – 1867 with V-drain storm water (MIS:338480)	21	R 3 212 184	✔	
Seisoville: Upgrading of sports stadium	11	R 1 106 895	✔	
Construction of Koekoe Village Sports Facility		R 10 000 000	✔	
Water Services Infrastructure Grant	All	R 15 000 000	✔	
Fencing of Cemetry	All	R 1 500 000		✔
Fencing of Landfill site	Kroonstad	R 1 500 000		✔

Table 9 Capital-Own Funding

The following table is a breakdown of the own funding on capital expenditure:

CAPITAL BUDGET (Own Funds)								
Description	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
Furniture, Equipment & Heavy Machinery	R 35 000	R -	R 634 035	R 336 000	R 1 418 000	R 3 092 146	R 1 204 250	R 6 719 431
Vehicles	R 650 000	R -	R -	R -	R -	R -	R -	R 650 000
Hardware				R 2 000 000				R 2 000 000
Disaster Early Warning System	R -	R -	R -	R -	R -	R 1 000 000	R -	R 1 000 000
Disaster Emergency Electricity	R -	R -	R -	R -	R -	R 1 000 000	R -	R 1 000 000
Disaster Emergency Housing	R -	R -	R -	R -	R -	R 2 500 000	R -	R 2 500 000
Cemetry Fencing	R -	R -	R -	R -	R -	R 1 500 000	R -	R 1 500 000
Landfil Site fencing	R -	R -	R -	R -	R -	R 1 500 000	R -	R 1 500 000
Total	**R 685 000**	**R -**	**R 634 035**	**R 2 336 000**	**R 1 418 000**	**R 10 592 146**	**R 1 204 250**	**R 16 869 431**

12. Cash flow Statement

Table 10 Budget Cash Flows

FS201 Moqhaka - Table A7 Budget Cash Flows				
Description	2018/19 Medium Term Revenue & Expenditure Framework			
R thousand	Adjustment Budget 2019/20	Budget Year +2020/21	Budget Year +2021/22	Budget Year +2022/23
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges	70 844	74 588	66 979	70 663
Service charges	484 558	504 826	464 985	490 559
Other revenue	20 912	15 045	40 284	42 499
Government - operating	209 803	225 482	206 063	223 900
Government - capital	55 178	55 178	59 018	64 526
Interest	21 396	24 228	25 536	26 941
Dividends	–	–	–	–
Payments				
Suppliers and employees	(778 846)	(801 102)	(763 319)	(805 301)
Finance charges	–	(6 389)	(2 813)	(2 968)
Transfers and Grants	–	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES	**83 845**	**91 857**	**96 733**	**110 819**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	–	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–
Decrease (increase) other non-current receivables	–	–	–	–
Decrease (increase) in non-current investments	–	–	–	–
Payments				
Capital assets	(55 178)	(55 178)	(59 018)	(64 526)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(55 178)**	**(55 178)**	**(59 018)**	**(64 526)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	–	–	–	–
Borrowing long term/refinancing	–	–	–	–
Increase (decrease) in consumer deposits	–	–	–	–
Payments				
Repayment of borrowing	(3 200)	(3 200)	(3 373)	(3 558)
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(3 200)**	**(3 200)**	**(3 373)**	**(3 558)**
NET INCREASE/ (DECREASE) IN CASH HELD	**(10 848)**	**33 479**	**34 342**	**42 735**
Cash/cash equivalents at the year begin:	11 670	822	34 301	68 643
Cash/cash equivalents at the year end:	**822**	**34 301**	**68 643**	**111 378**

REMARKS ON THE CASHFLOW

The cash flows have been projected on the various revenue streams based on the actual collection rate of the revenue streams.

Revenue Description	Collection Rate
Property Rates	90%
Electricity revenue	95%
Water revenue	80%
Sanitation revenue	80%
Refuse revenue	80%
Operating & Capital grants	100%
Other Income	80%
Average Collection	**86%**

The municipality has also made provision to meet **95%** of its overall Operational obligations. This provision is to be reviewed during the adjustment budget process depending on the availability of additional revenues and **100%** of the Capital commitments. The 5% variance between the revenue collection and the expenditure, will be subsidised through the additional revenue enhancement mechanisms and the collection of outstanding debt.

Collections from Arrear Debtors

The municipality's debtors book amounted to **R 780m** as at 30 April 2020. The municipality plans to collect at least **20% (R156m)** of its arrear debt in order to fund the outstanding creditors and other operational requirements during the budget year.

In facilitating the collection of arrear debtors, the municipality upgraded its electricity vending system to the one which enables it to collect 40% of all electricity purchases in relation to those consumers whose accounts are in arrears. The outstanding consumer debt relating to **Rammulotsi** (30 April 2020 **R275m** – 41% of outstanding debt) and **Matlwangtlwang** (30 April 2020 **R29m** – 4% of outstanding debt) continues to soar, mainly as a result of the municipality's inability to effectively implement debt collection mechanisms, as these areas are service by Eskom in terms of electricity supply.

The municipality owes Eskom **R350m** as at the preparation of the Annual Budget 2020/21. The municipality signed a payment arrangement with Eskom to settle this outstanding debt. The repayments relating to the current account are already provided for within the annual budget. This outstanding debt continue to decline very slowly given the fact that the municipality is still cross-subsidising other services to ensure effective service delivery.

The municipality continue to target the reduction of the reticulation losses for both water and electricity which were as follows; Water amounted to **R18m** *(2018 R20m)* & Electricity at **R44m** *(2018 R 47)* – as per the Audited Annual Financial Statements of 30 June 2019 through its continuous program of water and electricity meter replacements. To effectively carry out this task, the municipality sourced the services of private contractors to speed up the replacement of faulty water and electricity meters.

13. Long term borrowing

The municipality has not obtained any new long term borrowings in the current financial year. The table below indicates the balances as at 30 April 2020 and the projections for the current and the next MTREF.

Table 11 Municipal Borrowing

Borrowing - Categorised by type	Ref	2016/17	2017/18	2018/19	Current Year 2019/20			2020/21 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Parent municipality										
Annuity and Bullet Loans		22 366	22 662	24 846	22 366	22 366	22 366	23 462	24 588	25 768
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases		–	10	2 288	679	679	679	712	746	782
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Municipality sub-total	1	22 366	22 672	27 134	23 044	23 044	23 044	24 174	25 334	26 550

14. Performance Management

The municipality has adopted a Performance Management System (PMS). The PMS requires that the Municipal Manager and all Senior Managers accountable to the Municipal Manager sign performance agreements annually in line with the IDP Review, the Budget and the Service Delivery and Budget Implementation Plan (SDBIP).

It is further expected that Senior Managers enter into performance contracts with the Divisional Managers (Managers reporting to Senior Managers). The performance system is cascaded down to the entry level in the organisation.

The Municipal Manager, Senior Managers and divisional heads are evaluated against the Key Performance Indicators and the job description for each incumbent.

The performance contracts of Municipal Manager and Senior Managers include performance bonus, this is budgeted for, even though performance bonuses were never paid before.

All divisional heads, in the same manner as the Senior Managers and the Municipal Manager sign annual performance agreements and must be assessed accordingly. Monthly and quarterly reporting performance is compulsory with quarterly performance reports submitted to the Internal Audit for verification purposes, and the Executive Mayor submitting these to Council within 30 days after the end of the quarter.